1. Introduction

- **Flight scheduling system overhaul project** – Project will renovate Alaska’s 20-year-old outdated flight scheduling system. Alaska’s network is much bigger now, and it plans to expand to the entire continental US. This project will help the entire company in many significant ways.

- **The mileage plan upgrade project** - Project will let customers collect frequent flier mileages and with code-share airlines and its travel package partners. It will let customers use Alaska mileages at these companies. The project will spread awareness.

- **New data center construction project** – Project will build or purchase a five-story building for its data center. It will host the entire IT system and has a significant operational dependence.

2. Recommendation

<table>
<thead>
<tr>
<th>Conducted by</th>
<th>Flight scheduling system overhaul project</th>
<th>Mileage plan Project</th>
<th>New data center construction project</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-house IT group OR Outsource to external vendors</td>
<td>In-house IT group</td>
<td>In-house IT group</td>
<td>Outsource to external vendors</td>
</tr>
</tbody>
</table>

**Justifications**

- Alaska airlines and other air carriers do not schedule flights in the similar way because its unique depending on the carrier
- Protects Confidential Information such as how Alaska schedule its flights
- The flight schedules are unique and idiosyncratic to Alaska and outside vendors may not be cheaper
- Outsourcers may not understand the industry

- Managerial Control
- More secure and confidential
- Given more flexibility to make changes
- Plans are unique and idiosyncratic to companies
- Avoids conflict of interest

- Lowers operational and labor costs
- Takes advantage of outside talent
- Gives access to current technologies and high quality IT staff
- Frees up internal sources
- Reduced management time spent on IT
- Can be used for more valuable and strategic purposes
- Maximize restructuring benefits
- Improves company focus
- Provide variable, secure and reliable computing capacity
# IT Outsourcing Decision Matrix

<table>
<thead>
<tr>
<th>IT strategic asset that are crucial to competitiveness</th>
<th>Compete</th>
<th>Compare costs and benefits:</th>
<th>Keep In-House:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualify</td>
<td>Outsource Now:</td>
<td>Improve if keep in-house or outsource:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• New data center construction project</td>
<td>• Flight scheduling system overhaul project</td>
<td></td>
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<tr>
<td></td>
<td>• Mileage plan Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity</td>
<td>Specialty (non-commodity)</td>
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</tbody>
</table>

IT is a commodity that can be bought from the market anytime

<table>
<thead>
<tr>
<th>Project</th>
<th>Outside Vendor</th>
<th>Why</th>
</tr>
</thead>
<tbody>
<tr>
<td>New data center construction project</td>
<td>Completes only the project and Alaska takes over continuing operates and maintenance</td>
<td>• Vendors may not adapt to changing business needs&lt;br&gt;• More overall control with handling strategic and confidential information about the data.&lt;br&gt;• Avoids risk in outsourcing&lt;br&gt;• Avoids loss of alignment between business strategy and IT&lt;br&gt;• Avoid high contractual cost prices that may exceeds market price&lt;br&gt;• Can lead to failed promises to access new technologies&lt;br&gt;• Cannot judge whether the vendor works for the client’s best interests with a 100% certainty.&lt;br&gt;• More customized data center adaptable to our business&lt;br&gt;• Contacts may be “locked in”&lt;br&gt;• Can operate using deep business knowledge</td>
</tr>
</tbody>
</table>

**Why outsource the data center but the flight scheduling system or mileage system**

- **Strategic reasons:**
  - Outsourcing the data center will let Alaska improve business focus, gain access to world class capabilities, accelerate reengineering benefits, share risk and redirect resources to more strategic actives.
  - Flight Scheduling and mileage system are specialty projects that handle confidential information. Alaska does not want competitors knowing how it schedules its flights or how it runs its mileage plan. There are also unique and will be better designed in-house with more strategic control and ideas.
Sources

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Symphony Indonesia - Top Five Strategic and Tactical Reasons for Outsourcing
Sloan Management Review - The Value of Selective IT Sourcing
MIT Center for Information Systems Research - Planning a Strategic Outsourcing Profile
MIT Center for Information Systems Research - Sustainable Value from Outsourcing: Finding the Sweet Spot